

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Thessalonika Family Services, Inc. ("TFS") 38950 Mesa Road Temecula, CA 92592	Amount Requested:	\$500,000
		Requested Loan Term:	15 years
		Date Requested:	May 29, 2008
		Resolution Number:	HII-222
Project Site:	38980 Mesa Road and 37600 Glen Oaks Road, Temecula, CA, Riverside County		
Facility Type:	Group Homes		
Prior HELP II Borrower:	Yes. (Current loan balance is \$224,000)		
Background: Established in 1980, TFS is a licensed, nonprofit organization dedicated to its mission of providing quality long-term care and treatment for children in need of foster care services. TFS offers three unique residential treatment programs in Southern California for children who are victims of abuse and neglect.			
Uses of Loan Proceeds: HELP II proceeds will be used to refund the 1995 Series A Bonds issued by the Authority and insured by Cal-Mortgage, which were previously used to refinance several properties. With the proposed financing, TFS will save approximately \$10,000 in annual interest (\$148,000 over the life of the loan). This financing would also eliminate \$30,000 in trustee fees, insurance premiums and other fees associated with the bond issuance.			
Financing Structure			
<ul style="list-style-type: none"> • 15-year fixed rate loan. • 180 equal monthly payments of approximately \$3,453 (yearly payments of about \$41,435). • Gross revenue pledge. • First lien position on properties located at 38980 Mesa Road and 37600 Glen Oaks Road, Temecula, CA. • Loan to value ratio not to exceed 95% (estimated loan to value ratio of 38%). 			
Financial Overview: TFS appears to have maintained an operating surplus on its income statement during our review period. TFS's balance sheet appears solid with over \$1.5 million in total unrestricted net assets and good liquidity. The proforma debt service coverage ratio for the proposed HELP II loan is 1.34x.			
Sources of Funds		Uses of Funds	
HELP II	\$500,000	Refinance Existing Bonds	\$512,000
Borrower	<u>25,000</u>	Financing Costs	<u>13,000</u>
Total Sources	<u>\$525,000</u>	Total Uses	<u>\$525,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends approval of a HELP II loan for Thessalonika Family Services, Inc. in an amount not to exceed \$500,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.			

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

I. PURPOSE OF FINANCING

***Refund Authority 1995 Series A Bonds* \$ 512,000**

TFS seeks to refund 1995 Series A Bonds issued by the Authority and insured by Cal-Mortgage previously used to refinance several properties. CHFFA issued these bonds in the amount of \$1.36 million on December 19, 1995. The current interest rate on the bonds is 6.20% (fixed rate) with an outstanding balance of approximately \$512,000. The refunding will reduce the borrowers interest rate to 3%, providing an annual interest savings of approximately \$10,000 (over the life of the loan \$148,000).

The proposed HELP II loan will be secured by a first lien position on real properties located at 38980 Mesa Road and 37600 Glen Oaks Road in Temecula, CA. The current market value of the combined properties is approximately \$1.3 million, leading to a loan to value ratio of 38%. CHFFA has obtained current appraisals for both properties being used to secure the proposed HELP II loan.

***Financing Costs* 13,000**

Authority Fees.....6,250

Title/Escrow.....6,750

***Total Uses of Funds* \$ 525,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

Thessalonika Family Services, Inc.
Statement of Activities
(Unrestricted)

	For the Year Ended December 31		
	2007	2006	2005
Support & Revenue			
United Way	24,022	22,844	23,518
Other public support	65,390	80,228	69,160
Fundraising	350,589	251,552	155,681
Grants	198,338	201,655	66,675
Service fees	2,361,596	2,426,775	2,572,413
Miscellaneous Income	39,973	38,080	643,133
Total support & revenue	3,039,908	3,021,134	3,530,580
Expenses:			
Salaries	1,230,250	1,194,135	1,142,596
Child care expense (Food, clothing, etc.)	358,990	371,577	421,374
Social Workers	313,921	314,091	308,028
Benefits	169,393	162,007	175,564
Payroll taxes	118,504	115,093	109,612
Vehicle expense	98,875	110,705	145,036
Workers Compensation	91,523	113,191	124,013
Depreciation & Amortization	83,451	80,497	73,088
Fundraising Expenses	78,072	106,073	75,335
Utilities	68,705	61,148	57,712
Insurance	49,686	51,543	52,870
Interest	47,024	55,766	65,905
Leases-other	44,761	40,280	40,582
Outside services	32,243	31,527	27,201
Staff recruitment	23,289	30,313	-
Office expenses	20,678	21,472	25,118
Psychiatric/medical consultations	19,065	18,536	13,758
Title One	18,463	20,120	29,173
Accounting	17,987	18,892	18,582
Repairs & maintenance	12,028	23,024	28,946
Other Operating Expenses	86,616	(1,748)	51,336
Total expenses	2,983,524	2,938,242	2,985,829
Change in unrestricted net assets	56,384	82,892	544,751
Unrestricted net assets, beginning of the period	1,463,671	1,380,779	836,028
Unrestricted net assets, end of period	<u>\$ 1,520,055</u>	<u>\$ 1,463,671</u>	<u>\$ 1,380,779</u>

* Program expenses and Support expenses are combined.

Thessalonika Family Services, Inc.
Statement of Financial Position

	For the Year Ended December 31		
	2007	2006	2005
Assets:			
Current assets:			
Cash and cash equivalents	\$ 483,126	\$ 530,538	\$ 504,271
Account receivables, net	256,501	167,906	203,829
Other receivables	18,079	20,567	22,453
Prepaid Expenses & deposits	42,727	32,895	41,301
Total current assets	<u>800,433</u>	<u>751,906</u>	<u>771,854</u>
Property, Furniture & Equipment	2,554,057	2,507,749	2,423,625
Less Accumulated depreciation	<u>(774,656)</u>	<u>(716,808)</u>	<u>(646,753)</u>
	1,779,401	1,790,941	1,776,872
Other Assets:			
Restricted cash- Bond reserve	91,350	91,350	114,940
Restricted cash- Bond impounds	21,358	17,552	14,082
Deferred finance costs, net	48,443	54,649	60,855
	<u>161,151</u>	<u>163,551</u>	<u>189,877</u>
Total Assets	<u>\$ 2,740,985</u>	<u>\$ 2,706,398</u>	<u>\$ 2,738,603</u>
Liabilities and Net Assets:			
Current liabilities:			
Accounts payable & accrued liabilities	\$ 173,100	\$ 151,859	\$ 173,393
Accrued vacation	53,678	67,287	78,048
Notes payable, current	100,083	107,845	97,727
Total current liabilities	<u>326,861</u>	<u>326,991</u>	<u>349,168</u>
Long-Term Debt			
Notes payable	267,989	296,575	305,176
Revenue Bonds payable	531,305	581,721	626,250
Less, current portion	<u>(100,083)</u>	<u>(107,845)</u>	<u>(97,727)</u>
Total Long -Term Debt	<u>699,211</u>	<u>770,451</u>	<u>833,699</u>
Total liabilities	<u>1,026,072</u>	<u>1,097,442</u>	<u>1,182,867</u>
Net assets:			
Temporarily Restricted	194,858	145,285	174,957
Unrestricted	1,520,055	1,463,671	1,380,779
Total net assets	<u>1,714,913</u>	<u>1,608,956</u>	<u>1,555,736</u>
Total liabilities and net assets	<u>\$ 2,740,985</u>	<u>\$ 2,706,398</u>	<u>\$ 2,738,603</u>

Financial Ratios:

	Proforma (a)			
	FYE June, 2007			
Debt service coverage (x)	1.34	1.21	1.64	3.32
Debt/Unrestricted Net Assets (x)	0.51	0.53	0.60	0.67
Current Ratio (x)		2.45	2.30	2.21
Margin (%)		1.85%	2.74%	15.43%

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

TFS appears to have maintained surplus on its income statement during our review period.

TFS has been providing residential treatment for children throughout Riverside County and its surrounding areas since 1980. TFS reports its revenue stream is primarily derived from three major resources: service fees (78%), fundraising (12%) and grants (7%). TFS relies heavily on the revenue sources mentioned above and has operated successfully without a foster care rate increase since 2002. Between 2005 and 2007, TFS' income statement appears to reflect consistent revenue and TFS also appears to have kept operating expenses level over the review period. TFS has managed to operate successfully with a surplus during these years and continues to expand its operations.

Particular Facts to Note:

- In FY 2007, TFS experienced a 39% increase in fundraising as a result of support from community and local business. TFS has a strong Development Department sponsoring events throughout the year. The Development Department also continues to grow consistent with the growth of support by the community.
- In FY 2006, TFS experienced a decline in revenue from the foster care program for two reasons. First, the County of San Diego shifted the criteria for keeping children in home care, thus fewer children were available for foster care. Second, due to a cumbersome home study process, many families were unable to become certified. TFS has worked to remedy these problems and is aggressively recruiting placements.
- In FY 2005, TFS sold two of its properties to develop a second campus where services would be centralized and immediately available. TFS also sought to increase their spectrum of care and offer more comprehensive services at a second campus. As a result of the sale, TFS experienced an increase in revenue as shown in miscellaneous income in the amount of \$643,000.

Financial Discussion – Statement of Financial Position (Balance Sheet)

TFS' balance sheet appears solid with over \$1.5 million in total unrestricted net assets.

In 2007, TFS reported total unrestricted net assets of approximately \$1.5 million, a 4% increase from FY 2006. TFS appears to exhibit adequate and improving liquidity with a 2.45x current ratio and cash and cash equivalents of \$483,000. The existing debt service coverage also appears adequate at 1.21x. The proforma debt service coverage ratio remains adequate at 1.34x, indicating that TFS should be able to make loan repayments for the proposed HELP II loan.

Particular Facts to Note Continued:

- For FY 2007. TFS appears to exhibit good liquidity with approximately \$483,000 in cash and cash equivalents.
- TFS balance sheet appears to show improvement over the review period with an increase in total current assets of 6%, while current liabilities remained unchanged. In FY 2007, total liabilities decreased nearly 7%, seemingly illustrating a decline in long-term debt.

III. UTILIZATION STATISTICS

**Clients Served
Fiscal Year Ended January 31**

	2005	2006	2007
Totals	70	63	63

IV. ORGANIZATION

Background and Licensing

Thessalonika Family Services, Inc. (TFS) was founded in 1980 to provide quality long-term care and treatment for children who are victims of abuse and for children suffering from emotional difficulties. The particular needs of these children vary. As such, services are provided through three unique programs: Rancho Damacitas Group Home, Rancho Jireh Foster Care, and a Transitional Living Program.

Over 28 years ago, a Board of Directors in Temecula Valley started TFS. They bought one home and cared for six girls. Over the years, TFS expanded to six homes, caring for thirty-six boys and girls at Rancho Damacitas. Rancho Jireh was added as a second program in 1988 to provide a foster care program and roughly provides homes for 50 children. TFS also implemented a Transitional Living Program, which fills in the gap between emancipation and adulthood.

The TFS continues its mission of providing out-of-home treatment, and accepts referrals through the Department of Social Services and Mental Health as well as referrals from surrounding counties. TFS is licensed by the California State Department of Social Services.

V. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of June 30, 2007</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
CHFFA - Series A, 1995	\$1,360,000	\$531,305	\$-0-
CHFFA HELP II, 1999	500,000	224,000	224,000
Toyota Financial, 2007	24,404	23,803	23,803
GMAC, 2007	11,612	7,045	7,045
Proposed			
CHFFA HELP II, 2008		N/A	500,000
TOTAL DEBT		\$786,153	\$754,848

*Includes current portion of long-term debt.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Savings Pass Through: TFS has provided a description of its savings pass through in **Exhibit A.**
- Section 15459.1 of the Act (Community Service Requirement): TFS has certified that the services of the Facility will be made available to all persons residing or employed in the area served in **Exhibit B.**
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION:

Staff recommends approval of a HELP II loan for Thessalonika Family Services, Inc. in an amount not to exceed \$500,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.